

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07

CEA-01 EPA-01 PA-01 /093 W

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R 180929Z MAY 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 8035

INFO AMEMBASSY BONN

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PASS CEA AND TREASURY

E.O. 11652: XGDS-1

TAGS: ECON, JA

SUBJECT: JAPANESE/GERMAN ECONOMIC CONSULTATIONS

1. SUMMARY: CONSULTATIONS THIS WEEK BETWEEN GERMAN MINISTRY OF ECONOMICS AND JAPANESE ECONOMIC PLANNING AGENCY REVIEWED IN FAMILIAR TERMS OUTLOOK FOR EACH COUNTRY. EPA HAS GROWN MORE CONFIDENT SINCE SCHULTZE VISIT THAT 7 PCT GROWTH TARGET CAN BE ACHIEVED. END SUMMARY.

2. EPA CONTACT PROVIDED EMBOFF WITH RUNDOWN OF THE MAY 16-17 TALKS BETWEEN A GERMAN DELEGATION HEADED BY DR. BERNHARD MOLITOR, DEPUTY ASST SECRETARY FOR ECONOMIC POLICY OF THE GERMAN MINISTRY OF ECONOMICS AND EPA OFFICIALS LED BY OORDINATION BUREAU DIRECTOR GENERAL MIYAZAKI. THESE ARE ONE OF PERIODIC MEETINGS WITH GERMANS SIMILAR TO THOSE HELD LAST MONTH BETWEEN US CEA AND EPA.

3. EPA PRESENTATION OF OUTLOOK FOR JAPAN FOLLOWED CLOSELY THE ASSESSMENT MADE AT THE TIME OF THE SCHULTZE VISIT, WITH CONFIDENTIAL

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EPA EXPRESSING EVEN GREATER CONFIDENCE THAT, BASED ON LATEST EVIDENCE, 7 PCT GROWTH TARGET CAN BE ACHIEVED. THE IMPROVING TREND OF INDUSTRIAL PRODUCTION, SHIPMENTS AND INVENTORIES WAS EMPHASIZED AND SURVEY EVIDENCE HAS CONVINCED THE GOVT THE OFFICIAL FORECAST FOR PRIVATE CAPITAL INVESTMENT WILL BE ATTAINED. OUR CONTACT NOTED THAT DURING THE SCHULTZE VISIT MIYAZAKI HAD EXPRESSED SOME

CONCERN ABOUT THE OUTLOOK FOR PRIVATE CONSUMPTION BUT STABILITY OF THE WPI AND CPI AND RECENT STATISTICS ON SALES INDICATED CONSUMPTION WAS GETTING A LITTLE STRONGER. ON THE CURRENT ACCOUNT, EPA TOLD THE GERMANS THAT WITH DOMESTIC DEMAND STRENGTHENING A "CONSIDERABLE" DECREASE IN THE SURPLUS IN THE LATTER PART OF THE YEAR WAS LIKELY.

4. ON THEIR SIDE, THE GERMANS REVIEWED THE PROSPECTS FOR ACHIEVING THEIR 3.5 PCT OFFICIAL GROWTH PROJECTION AND OFFERED THE JUDGMENT THAT LATER IN THE YEAR THERE WOULD PROBABLY BE MORE CONVERGENCE BETWEEN THE OFFICIAL FORECAST OF 3.5 PCT AND THE PRIVATE INSTITUTE FORECASTS, NOW RUNNING AT AROUND 2.5 PCT. THE GERMAN SIDE OFFERED THE PRIVATE JUDGMENT THAT AS 1980 ELECTIONS GREW CLOSER A POLITICAL DECISION IN FAVOR OF INCOME TAX CUTS WOULD BECOME MORE LIKELY. MOLITOR APPARENTLY CRITICIZED (UNNAMED) "NAIVE KEYNESIANS" WHO FOCUS EXCLUSIVELY ON GROWTH TO THE NEGLECT OF IMPORTANT OBJECTIVES SUCH AS INFLATION. HE SAID EXPANSION IN EUROPE WOULD RESUME AS INFLATION CAME UNDER BETTER CONTROL.

5. EACH SIDE ASKED THE OTHER WHAT THEY WOULD DO IF GROWTH TARGETS WERE NOT ACHIEVED. EACH SIDE INSISTED THE FORECASTS WOULD BE MET BUT THAT APPROPRIATE ACTION WOULD BE TAKEN IN THE UNLIKELY EVENT OF EVIDENT SHORTFALLS.

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